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UNCLAS SANTO DOMINGO 004036

SIPDIS

DEPT FOR WHA, WHA/CAR, EB/IFD/OMA, EB/ESC/IEC/EPC; NCS FOR SHANNON; USDOC FOR 4322/ITA/MAC/WH/CARIBBEAN BASIN DIVISION

E.O. 12958: N/A
TAGS: DR ENRG ETRD
SUBJECT: DOMINICAN REPUBLIC: COAL PLANTS? NOT ANY TIME SOON.

REF: E.O 12958: N/A

¶1. President Fernandez abruptly put on hold the idea of acquiring two coal-fired generating plants, only days after Radhames Segura, President of the Dominican Corporation of Electricity (CDEEE), gave an upbeat two-hour presentation on the immediate future of coal production. With ongoing sporadic blackouts and rumors of worse to come, the government continues to look for a quick solution to the country's energy crisis.

¶2. Since President Fernandez came into office a year ago, he has repeatedly expressed interest in a proposal for the importation of two pre-fabricated coal plants that supposedly would produce electricity for USD 0.04/kwh versus USD 0.08/kwh with the gas and fuel oil powered plants. But on August 5 at the end of a four-hour discussion including World Bank representatives, Fernandez ordered his energy committee to decline the offer by the Westmont Power Company to provide two coal plants costing USD 500 million. Local newspapers quoted him as saying that he intended to eliminate the "tit for tat" approach to energy and that his administration would no longer entertain privately negotiated deals from single sources who may have ties to the administration.

¶3. Westmont was the only company with which the government had been negotiating the coal plant solution. Fernandez has now instructed his energy committee to put the coal project out for open bid. Newspapers comment that the shady reputation of the Malaysian owner of Westmont was a factor in the decision. (International NGO Transparency International just issued a belated retraction of its 2004 assertion that Westmont had engaged in corrupt practices in Tanzania.) One issue of concern was the Westmont request for a USD 140 million "loan" upfront, to be repaid from the future revenue stream with contract provisions that included "take or pay" penalties.

¶4. This is the second time World Bank and other experts have talked the President out of this deal. In early 2005 in a similar meeting they appeared to have convinced him that additional capacity was not a solution, especially not through this particular offer. Fernandez appears to have wanted to resuscitate it, in part as a way of pressuring other generators to negotiate lower contract tariffs.

¶5. The President said he still wants to continue the search for alternate forms of energy to relieve the country's dependence on petroleum. Dominican energy authorities argue that the demand for electricity will soon surpass the generating capacity and therefore the country needs to locate cheaper forms of electricity, such as coal, to keep up with the growing demand. This reasoning is tenuous, at best, and the numbers paint a different picture. Installed generating capacity is over 3,000 megawatts, and average daily peak consumption is around 1,600 mgw. Most experts on energy agree that the Dominican Republic can produce enough energy to meet its probable demand. This has been a principal argument against the coal plants from the beginning: why add new capacity when none is needed?

¶6. A more fundamental problem is the poor performance of the distribution companies. With the distributors collecting a little more than USD 0.50 of every USD 1.00 of electricity sold, this is the area that needs priority attention. USAID assisted in the development of a "sustainability plan" in 2004 but due to continued problems in the distribution companies they are seriously behind on the collection goals of the plan meant to establish financial sustainability in the ector by the end of 2005. Two government-owned distributors, EDENORTE and EDESUD, have just yielded to insistence by the administration that they employ professional managers contracted from Peru. Until collections are improved, the energy sector will continue to struggle.
MEIGS